Case Study – Steven's Point, WI

Summary

Hi-Rise Manor, originally with 98-units, is a mixed-finance *Capital Fund Financing Program* project that the Stevens Point Housing Authority (SPHA) is modernizing to serve its seniors and disabled clients. The project was functionally obsolete and not competitive in the marketplace, since the majority of its units were 370 square-foot studio apartments that were meeting market resistance due to their small size. In the modernization process, 48 studio units are being combined into 24 fully-accessible one-bedroom units. The remaining one-bedroom units with 462 square feet) are also being fully refurbished. The project will have 73 units when phase 2 is completed in late 2007. Stevens Point Housing Authority manages 271 units of public housing, in additional to an 80-unit Section 8 property. It also has 14 units of Housing Choice Vouchers that are currently administered by the county housing authority.

Project Concept

The seven-story property originally opened in 1971 as a facility for seniors, and the initial market response was strong. As a result of changing demand in the senior housing market and the passage of the *Americans with Disabilities Act* in 1990, new applicants for Hi-Rise Manor were predominantly non-elderly, disabled individuals. By the end of the 1990s, the property was no longer competitive in the senior market, mainly due to the size of the units and the lack of handicapped-accessible units.

SPHA recognized that converting the building to larger units was desirable; however, the level of its Capital Grant funds would require an incremental approach (i. e. a limited number of units converted per year over a long period of time). The SPHA assessed its options, but determined that an incremental approach was not feasible, and the plan was dropped. In late 2001, a private developer expressed interest in acquiring the property for redevelopment using Low-Income Housing Tax Credits. This led the authority to reexamine its options, and by the spring of 2002, the authority engaged a consultant to undertake a feasibility study for conversion of the property by the authority through the use of Low-Income Housing Tax Credits. By that summer, the authority completed a model unit, using its own funds, to demonstrate to its Board and the community that combining two studio units into a refurbished, fully accessible one bedroom unit was feasible and that the result would be very desirable in the market. With strong community support, planning for the project continued and a decision was ultimately made to proceed with a tax credit application. The application was submitted in January 2004, with the expectation that a variety of sources of funds would be used, including tax credit equity, funds from the authority itself, the Federal Home Loan Bank's Affordable Housing Program and a soft loan from the Wisconsin Housing and Economic Development Authority. The project was divided into two phases, addressing one wing of the building at a time, in order to minimize resident displacement during renovations.

Over time, other financing options were considered, including the *Capital Fund Financing Program*, which would allow the authority to borrow against its future allocation of capital funds, and use a portion of those future capital funds to service the debt on the loan.

Phase I Description

Through attrition and moving residents to other properties managed by the authority, two floors of one wing were vacated, starting from the top floor and working down. Construction began in January of 2005, and was completed in the summer of 2006. Four studio units on each floor are converted to two fully-accessible one-bedroom units. One additional studio on each floor was refurbished and converted to a junior one-bedroom, and all of the one-bedroom units were completely refurbished. Refurbishing of all units includes complete replacement of kitchen cabinetry, counters, and appliances, installation of walk-in showers (large roll-in showers for the accessible units), and new flooring and closet shelving systems. A previous renovation of the building in the early 1990s, overhauled the boiler system, replaced the roof, installed thermal windows, and added a solarium to the front of the building for additional community space. Upon completion, Phase 1 will contain 12 large, fully-accessible 1-bedrooms, 18 standard size 1-bedrooms, and 6 'junior' 1-bedrooms. All remaining units are preserved as public housing.

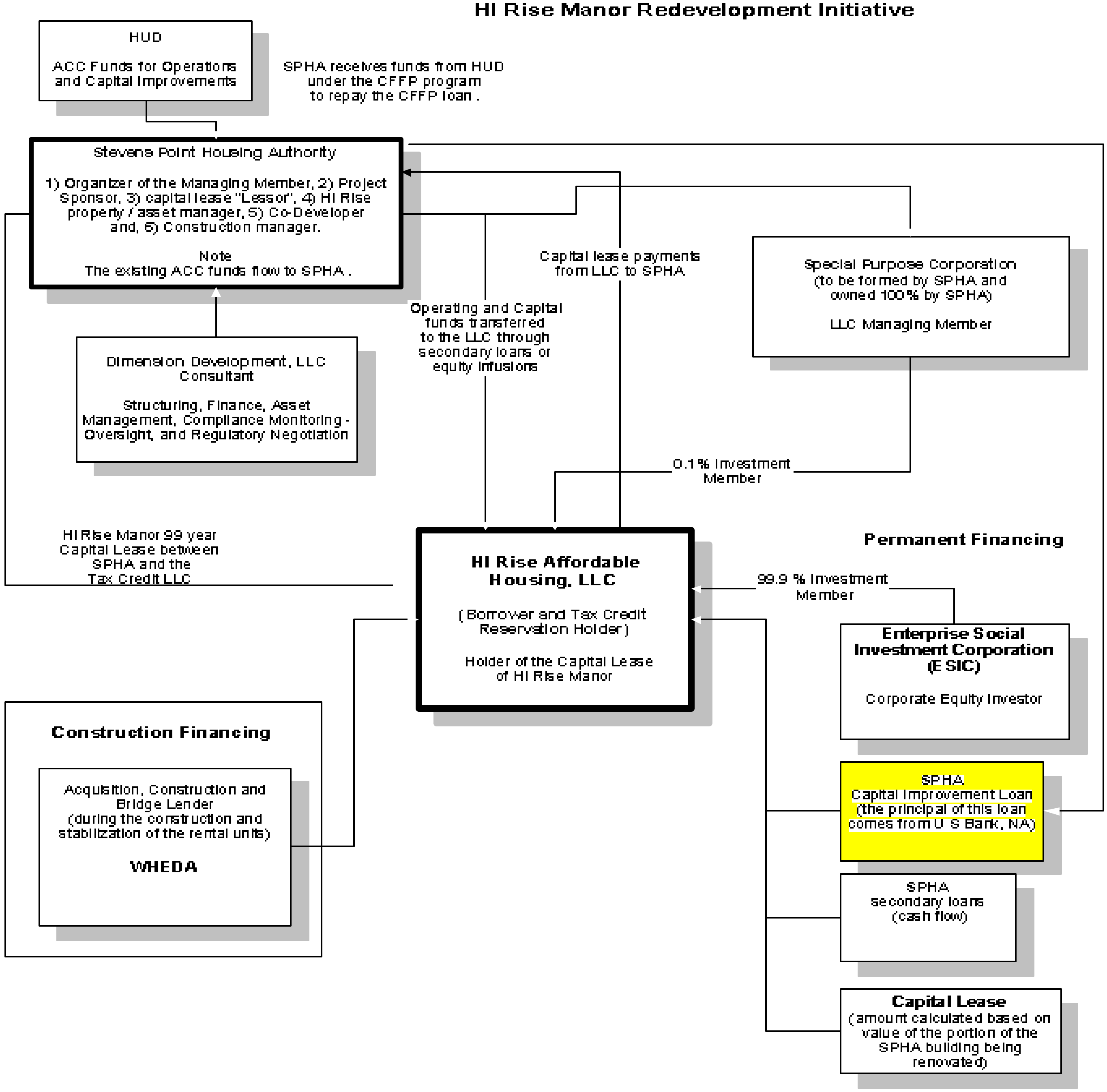
Ownership/Financial Structure (Phase I)

In order to take advantage of the tax credits, a new limited liability company was created to own the project, with the authority as the 0.1% managing member, and limited partners (members) were brought in by ESIC as tax credit investors holding 99.9%. The ground is leased to the limited liability company by the housing authority. The authority and Dimension Development LLC serve as the developer and co-developer respectively, and the authority continues to manage the property. The authority requested and received approval for a Capital Fund Financing Program loan, which provided $907,073 toward the modernization project. U.S. Bank made the loan to the authority, with a ten-year term. Repayment of the loan will be made through the authority's annual allocation of capital funds, paid directly by HUD. The annual debt service is limited to less than 33% of what the authority receives in capital funds *for this project alone*. It represents less than 15% of the authority's total annual capital fund allocation. Tax credit equity will provide approximately $2 million. At the end of the 15-year LIHTC compliance period, the property will revert to the authority, which will pay any exit taxes of the limited partnership. The authority's capital funds are being loaned to the limited partnership. The authority and its co-developer share the developer fee approximately two-thirds, one-thirds, respectively.

Given that the project was divided into two phases, and each was relatively small, the authority decided that 9% tax credits would generate substantially more tax credits, and therefore decided to compete for an allocation, rather than use the 4% tax credit resource, which is more expensive from a transaction perspective, and result in far less equity for the project. The engagement of a financial advisor with a successful track record competing for tax credits was an essential part of this strategy. This advisor helped the authority to position the project for maximum competitive advantage, based on the requirements of the HFA's Qualified Allocation Plan. Since the 9% program would result in twice as much equity (and therefore save twice as much capital funds), the authority decided that it was better to first try for the 9% credits. If unsuccessful, it could either reapply or opt for the 4% program instead.

Stevens Point Housing Authority

HI Rise Manor Redevelopment Initiative



Sources and Uses (Phase 1)

Sources	
Capital Funds (CFFP)	$907,073
Tax Credit Equity (ESIC)	$2,005,000
Capital Lease	$326,000
Other	$27,004
Total Sources	$3,265,177

USES	
Acquisition	$326,000
Hard Costs & Contingency	$2,025,000
Financing Expenses	$129,464
Developer/Consultant Fees	$326,000
Debt Service Reserve (CFFP)	$70,973
Other Soft Costs	$387,740
Total Uses	$3,265,177
Cost per Finished Unit	$90,699

Comparison of Leveraged to Unleveraged Steven's Point CFFP Deal

Assumptions:			
Number of Units:	75		
Tax Credit Program:		9%	4%
Tax Credit Adjustment:		0.0815	0.0349
Tax Credit Transaction Costs as % of TDC		5%	5%
Difficult to Develop Census Tract		No	No
Discount Rate on Tax Credits		$0.985	$0.985
Basis as % of TDC		92.0%	92%
Bond Cost of Issuance as % of Par	3%		6%
Loan Cost of Issuance as % of Loan	2%	3%	
Interest Rate on Loan	6.50%	6.50%	
Coupon Rate on Bonds	4.55%		4.75%
Term (in years)	20.00	20.00	20.00
Loan or Bond	**Bond**	**Leverage (9%)**	**Leveraged (4%)**
Amout of Borrowing/Loan	$ 2,900,000	$ 1,041,196	$ 2,104,021
Less:			
Cost of Issuance	$ (87,000)	$ (31,236)	$ (126,241)
Debt Service Reserve	$ (263,194)	$ (94,495)	$ (165,272)
Capitalized Interest	$ (32,988)	$ (11,844)	$ (23,933)
Reserve for Replacement	$ -	$ (15,000)	$ (15,000)
Net Proceeds	$ 2,516,819	$ 888,621	$ 1,773,575
Tax Credit Equity	$0	$ 1,765,864	$ 756,180
Total Development Costs	$ 2,516,819	$ 2,654,485	$ 2,529,755
Interest Costs over Life of Borrowing	$ 2,363,871	$ 848,708	$ 1,201,416
Total Capital Funds Expended	$ 5,263,871	$ 1,889,904	$ 3,305,437
CFP Savings + Additional Development		$ 3,511,634	$ 1,971,370

Above is a chart showing the Steven's Point 9% LIHTC CFFP transaction in comparison to the development as a 4% LIHTC transaction and a straight loan. This shows the savings that Stevens Point achieved in using 9% LIHTC credits.

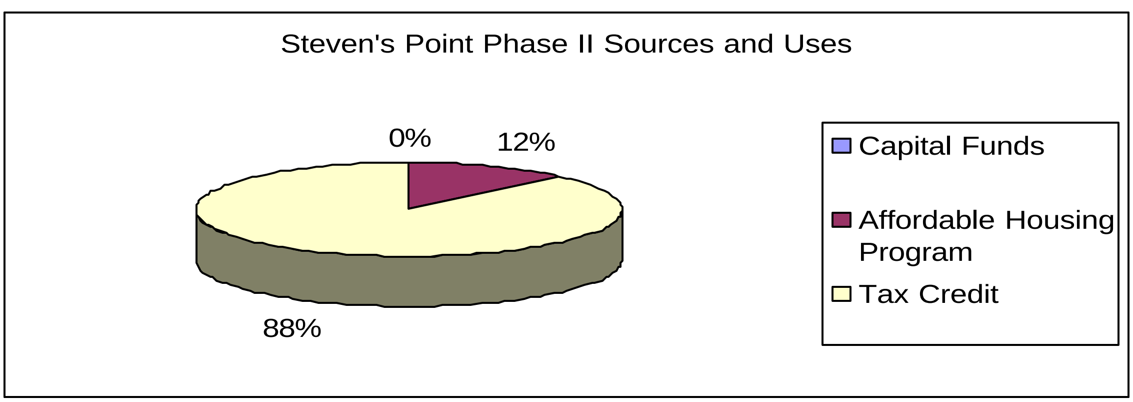
Lease-Up and Phase 2

Since the authority is moving residents from within the building into the finished units, there was no need for a lease-up of the first phase. A tax credit application was submitted in January 2006 for the second phase, and an allocation was announced by the Housing Finance Authority on April 17, 2006. Both phases qualified for the "preservation" set-aside under Wisconsin's Qualified Allocation Plan. No additional capital funds are being used for Phase 2, since they will receive substantially more equity for the credits, $2.4 million, based on current pricing ($0.985/$1.00). Additional sources for this phase include a $340,000 grant from the Affordable Housing Program of the Federal Home Loan Bank. Phase II will consist of the remaining 37 units for a total project of 73 units.

Sources and Uses (Phases I and II)

Sources	
Equity	$4,943,000
Capital Lease	$1,326,000
CFFP Debt	$863,100
FHLBC	$364,900
Reserves	$38,000
SPHA	$275,150
Total Sources	$7,810,150

USES	
Acquisition	$1,326,000
Hard Costs	$4,969,250
Contingency	$400,600
Financing Expenses and other Soft Costs	$243,100
Developer/Consultant Fees	$753,000
Debt Service Reserve (CFFP)	$118,200
Total Uses	$7,810,150
Cost per Finished Unit	$106,988.35



Lessons Learned

The authority, the lender (US Bank), the city and the investor (ESIC) all consider the project to be very successful. The lender considers the loan to be a very good investment, even though it is a non-recourse loan. The journey from beginning to end, however, was laborious and complex. Steven's Point faced a host of complexities, including being one of the first CFFP transactions funded by a loan. Ultimately, the PHA's efforts led to a transaction in which the PHAs CFFP proceeds are leveraged 2:1 for the first phase alone, and 4:1 including the second phase.

The authority's executive director emphasizes the importance of having an experienced technical assistance provider to assist the authority, as it would not have been possible for the authority to manage this process alone in his view. He also stressed the importance of: maintaining services to residents throughout the construction period, even if they are temporarily relocated; resident and community consultation; and adequate seed capital.

Project Timetable

Initiation of Planning	04/01
Submittal of Tax Credit Application	01/04
Demo/Dispo Submittal	04/04
Submittal of Capital Fund Financing Program Proposal	06/04
Submittal of Mixed-Finance	06/04
Demo/Dispo Approval	10/04
CFFP Approval	10/05
Mixed-Finance Approval	11/05
Phase 1 Construction Completion	06/06
Phase 2 Construction Completion	12/07

Partners

Housing Authority	Stevens Point Housing Authority
State Government	Wisconsin Housing & Economic Development Authority
Owner	Hi-Rise Affordable Housing, LLC
Developer	SPHA, with Dimension Development LLC
Property Manager	Stevens Point Housing Authority
Syndicator	Enterprise Social Investment Corporation
Legal	Folley and Lardner
Lender	U.S. Bank National Association
Management Assessment	Standard and Poor's
Fairness Opinions	Hawkins, Ash, Baptie & Company, LLP / Tom Landgraf Consulting, LLC
Architect	William Yudchitz, AIA - Revelations Architects, LLC
Builder	Ellis Stone Construction Company, Inc.

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